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NOMINATION OF RICHARD T. McCORMACK

SEPTEMBER 30 (legislative day, SEPTEMBER 8), 1982.—Ordered to be printed

Mr. PERCY, from the Committee on Foreign Relations, submitted the following

REPORT

The Committee on Foreign Relations to which was referred the nomination of Richard T. McCormack to be Assistant Secretary of State for Economic and Business Affairs, having considered the same, reports favorably thereon and recommends that the nomination be confirmed.

COMMITTEE ACTION

The nomination of Richard McCormack to be Assistant Secretary of State for Economic and Business Affairs was submitted to the Senate by President Reagan on September 15, 1982, and referred to the Committee on the same day. Mr. McCormack testified before the Committee on September 27, 1982.

At its meeting on September 28, the Committee agreed by voice vote to report the nomination favorably to the Senate, with Senator Biden recorded as voting present.

COMMITTEE COMMENTS

The Assistant Secretary formulates and implements policy regarding foreign economic matters and trade promotion and business services of an international nature and, in this connection, negotiates agreements. He is responsible for Departmental guidance and representation with respect to United States and other public international lending institutions. He is responsible for all Departmental activities necessary to advise and assist the Office of the U.S. Trade Representative, in accordance with the Trade Act of 1974.

He ensures, in coordination with the assistant secretaries of the regional bureaus, the provision of an adequate, regular flow of information concerning the U.S. Government's multilateral economic and commercial policies, policy deliberations, legislative developments, and diplomatic exchanges, especially on matters that may result in negotiations and representation abroad.

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The Committee finds Richard McCormack to be highly qualified for the position of Assistant Secretary of State for Economic and Business Affairs. He brings strong academic and professional credentials to the job. Mr. McCormack holds a Ph.D. in International Economics from the University of Friburg in Switzerland. He has had extensive prior experience in the executive branch, on the personal staff of a member of Congress, and in the private sector. While serving in the Executive Office of the President he drew up plans for the White House Council on International Economic Policy.

The Committee finds Mr. McCormack to be knowledgeable on the issues which will fall within his areas of responsibility. The Committee noted Mr. McCormack's strong endorsement of an open trading system and his sensitivity to the risks posed by accumulated LDC debt.

Based on his qualifications and his testimony, the Committee on Foreign Relations urges the Senate to approve the nomination of Richard McCormack to be Assistant Secretary of State for Economic and Business Affairs.

The following questions were submitted for written responses:

DEPARTMENT OF STATE,
Washington, D.C.

Hon. CHARLES H. PERCY,
Chairman, Committee on Foreign Relations,
U.S. Senate.

DEAR MR. CHAIRMAN: I am pleased to forward the responses to the questions you and Senator Biden requested in connection with Mr. Richard T. McCormack's confirmation hearings.

With cordial regards,
Sincerely,

POWELL A. MOORE,
Assistant Secretary for Congressional Relations.

Enclosure: Responses to questions.

1. *Question.* Dr. McCormack, your biographical materials indicate that when you worked in the Executive Office of the President from 1968 through 1971, you conducted a "major study on ways and means of managing bureaucracies on the part of senior political appointees."

What conclusions did you reach that can assist you in your new post?

Answer. The basic conclusion of this report was that the career people and the political appointees should not regard each other distrustfully or as adversaries. Instead, the political appointees and the career officials should recognize the strengths which they both have, and harness together for the benefit of the American people. Please see the attached letter dated June 18, 1970, from former Under Secretary Richardson.

THE UNDER SECRETARY OF STATE,
Washington, June 18, 1970.

MR. RICHARD T. MCCORMACK,
130 Executive Office Building,
Washington, D.C.

DEAR MR. MCCORMACK: Wil Hastings gave to me a copy of your paper on advice to new political appointees in positions of major bureaucratic responsibility. I understand that Wil has already relayed

his compliments to you on the draft and I simply want to add my own comment, in spades. I really think you have produced an extremely valuable and timely paper.

I hope you will see that it gets wide distribution.

With kindest regards,

Sincerely,

ELLIOT L. RICHARDSON.

2. *Question.* In 1980, you traveled to Rhodesia as a Senate staff member and personally observed the elections that brought Robert Mugabe to power. Subsequently, you wrote a report entitled, "The Rhodesian Debacle," which was printed in the Congressional Record.

Based upon your experiences as a Congressional observer, what do you think is the appropriate role for Senators, Congressmen, and their staffs to play in the policymaking or diplomatic process?

Answer. The Congress of the United States has a constitutional mandate to advise and consent on matters of foreign policy. More broadly, the Executive Branch needs to consult the Congress and to take Congressional views into account. Otherwise, needless errors might transpire, and Congress might refuse to provide funds to support Executive Branch initiatives.

Staff members serve as eyes and ears for elected members of the Congress, as one source of information upon which Congressmen and Senators draw to assist in gaining perspective on individual foreign policy issues.

3. *Question.* In your 1980 report, you concluded that "over the next several years, the Rhodesia of today will, in all likelihood, slowly fade away."

What did you mean by this statement?

Answer. I felt that Robert Mugabe would probably implement economic policies which would discourage investment and, over the long haul, would prevent Zimbabwe from reaching its enormous economic potential. I believed there was a great danger that economic levels could actually deteriorate, over time.

I carry no brief for racism in any form as you may see from both my own past record in this area. But I felt that some form of coalition alternative to Mr. Mugabe and his party had a higher probability of providing wise policies and a better future for the people of Zimbabwe.

4. *Question.* In your 1980 report, you predicted that "within two years, Rhodesia's economy is likely to be nationalized, piece by piece." To what extent have your predictions come true? In your personal view, what have been the effects of the Zimbabwe government's policies on economic performance? In your own view, what is the current state of Zimbabwe's economy?

Answer. While there has been some increase in government participation in the private sector, wholesale nationalizations have not occurred. The business community is, however, watching closely the development of the Zimbabwe government's economic policies, and naturally does not agree with a number of steps which have been taken.

After two years of growth, the Zimbabwe economy will be slowing down in 1982 due to a number of internal and external factors. Zimbabwe has, however, the potential to be one of the stronger economies of Africa.

5. *Question.* As Assistant Secretary for Economic and Business Affairs, in what ways—if any—would you seek to promote an expanded role for U.S. trade and investment in Zimbabwe?

Answer. I think that the U.S. Government has a role to play in underlining the concerns of the U.S. business community to the Zimbabwe Government, and when appropriate, in encouraging the Zimbabweans to take specific steps which meet these concerns. For example, I think it entirely appropriate that we emphasize to the Zimbabeweans the interest of U.S. companies in seeing an investment code in Zimbabwe.

In the end, of course, there is only so far that we can go. While we can encourage the development of a general climate in Zimbabwe conducive to foreign investment, the "go-no go" decision has to be made by the companies themselves.

6. *Question.* The Administration has indicated that an internationally acceptable settlement in Namibia may be quite close. In your view, what would be the appropriate role for U.S. trade and investment in a newly independent Namibia? Would your answer differ if Namibia were ruled by an elected government of the Southwest Africa People's Organization (SWAPO)?

Answer. We, of course, feel that U.S. trade and investment can be a positive influence in any developing nation. Namibia is no exception.

It would be premature to go into specifics on this issue. At this stage of the negotiations for Namibian independence it would be difficult to speculate on what our approach to any particular post-independence government would be.

7. *Question.* During last year's debate on the repeal of the Clark Amendment, which bans overt or covert U.S. operations in Angola, a number of major U.S. companies doing business in Angola argued against repeal. As Assistant Secretary, to what extent would you argue, during the deliberative process, that trade and investment concerns should play a significant role in the formulation of policies such as the repeal of the Clark Amendment or diplomatic recognition of Angola?

Answer. Our goal is to achieve full normalization of relations based on a cooperative approach to regional peace and stability.

We favor repeal of the Clark Amendment as a matter of principle to remove unwarranted restraints on the President's ability to conduct foreign policy. The Administration is on record as having no plans to aid any opposition group. Our efforts to repeal the Clark Amendment do not mean that we have any such plans.

8. *Question.* In your view, what is the role for U.S. private trade and investment in countries with avowedly Marxist governments?

Answer. Private trade on commercial terms in areas which do not violate the COCOM agreements, related national security strictures or other national policies are mutually advantageous. This is true regardless of the form of government of the other trading partner. It is not, however, clear to me how great the opportunities for investment will be in most marxist societies. Investors are reluctant to put long-term fixed investments in countries where the leadership is actively discussing policies which could compromise the viability of these investments. But this is a matter for private, not government, decisions. Private investors are, as a general rule, very aware of local

conditions and risks where they are considering making investments.

9. *Question.* As Assistant Secretary, would you seek to promote trade and investment with such countries around the world?

Answer. With respect to these countries, I would not be comfortable either encouraging or discouraging individual exporters or investors, wherever they may be considering investing or trading, beyond providing them with whatever factual information the Department of State has at its disposal which might have a bearing on risk assessment or opportunities.

10. *Question.* Please describe in your own words the present U.S. policy of "constructive engagement" toward South Africa, with particular regard to the trade and investment components of that policy.

Answer. President Reagan has stated on several occasions that we find apartheid repugnant but that we would support those many South Africans trying to move away from apartheid. I would associate myself with the President's views which are a succinct statement of what constructive engagement stands for.

The United States supports an arms embargo against South Africa and has imposed other unilateral restraints on sales to the police and military. We are opposed to Congressional legislation which would limit new U.S. investment, ban the sale of Krugerrands, ban U.S. bank loans, and force compliance with a set of now voluntary fair employment principles for U.S. firms operating in South Africa. We do not believe such punitive measures will at this point encourage the government in South Africa to change. We also believe that these economic relations give the U.S. important leverage and a means of communicating to South Africa U.S. support for peaceful change in South Africa.

13. *Question.* Do you feel that any such linkage of trade and investment policy to other foreign policy considerations is appropriate?

Answer. In general, we believe that trade and investment issues should be decided on their own merits and should not be subjected to other considerations. Clearly, where major foreign policy implications arise it may be appropriate, and even necessary, to subordinate them to these broader interests.

14. *Question.* In your report on the Rhodesian elections, you noted that British policy toward Rhodesia was influenced by economic pressures from other African states, particularly Nigeria.

To what extent do you feel that it is appropriate for U.S. policies to be directed by real or perceived economic pressures from other countries?

Answer. American policies should be aimed at advancing the interests of the American people in the broadest possible sense. They must also take into account our moral values. To the extent that external economic pressures are realities, they must be considered in the overall formulation of our policies. But broader perspectives must also be factored into any final policy decisions.

15. *Question* (*a*). In your view to what extent is the United States dependent upon imports of "strategic minerals" from South Africa?

Answer. The Republic of South Africa is an important source of U.S. imports of chromium, platinum group metals, manganese, vanadium, and ferrochromium.

Question (*b*). Should U.S. policy toward South Africa be shaped in any way by such dependence?

Answer. In the long run, our best insurance against a cutoff of strategic minerals from South Africa is helping it find peaceful solutions to its problems. A politically moderate and economically viable South Africa is more likely to be a dependable source of critical materials for the West than one beset by economic stagnation and political tension. The Administration has adopted a policy of constructive engagement in South Africa. Our interests are served neither by a maintenance of the status quo of the apartheid system nor by violence and the destruction of South Africa's economic system.

16. *Question.* What is the impact on U.S. business and agriculture of economic restrictions imposed for foreign policy reasons?

Answer. U.S. business and agriculture are largely opposed to the use of restriction of trade as an instrument of foreign policy, and have not been reluctant to air this opinion before the Congress or the Administrations imposing the sanctions. For the years 1979 through 1981, the Department of Commerce estimates that USG economic sanctions cost U.S. companies some $1 billion. Grain sales during 1979–1980 were expected to be about 25 million tons. Actual sales were limited to 8 million tons, a loss of 17 tons. However, since this administration lifted the grain embargo, sales to the USSR in July 1981–June 1982 market year reached a record of 15.4 million tons.

We regret that the sanctions on oil and gas equipment, and technology will cause economic hardships and we are sympathetic to the sacrifices required of U.S. industry and firms abroad as a result of the measures we have had to take. The President fully understands the objections to the sanctions policies, but is not persuaded to reduce the impact of the sanctions absent significant progress in Poland. Secretary Schultz will have meetings with a number of them during the opening days of the current U.N. General Assembly session. Meanwhile, we intend to implement the sanctions consistently and firmly.

17. *Question.* The United States has argued strongly that our companies with investment overseas should be given at least as favorable treatment as national companies. How do you then defend this position given U.S. claims of extraterritorial control over U.S. subsidies, and even over U.S. licensed technology?

Answer. A principal foundation of U.S. policy toward international investment is the treatment of foreign investment on terms no less favorable than treatment received by domestic investment. We argued strongly not only for national treatment of our investment overseas but for national treatment for foreign investment in the United States as well. Every country, of course, maintains certain sectors in which it does not accord national treatment, largely on national security grounds. Foreign policy problems have occasionally arisen and will continue to arise in a number of areas as a result of the application of U.S. law to commercial conduct outside our territory. National security constitutes a key reason for U.S. claims of control over certain conduct abroad by both U.S. and foreign-owned companies. We are also concerned about the economic impact on the United States of actions which take place outside our territory. This is the inevitable result of an increasingly interdependent world economy.

18. *Question.* This Administration appears to share some of the concern over the system. Would you explain the intent and nature of the

U.S. proposal floated in Toronto at the IMF annual meetings for a new "Special Facility" within the IMF?

Answer. The Administration does share some of the growing concern over the international financial system. We look to a strengthened IMF to play a continued important role in smoothing/promoting balance of payments adjustment and in cushioning shocks to the system.

At Toronto, the United States raised the idea of a new, permanent borrowing arrangement for the IMF, which would be in addition to any quota increase agreed upon. In concept, the quota increase would be designed to meet temporary balance of payments financial requirements under normal circumstances. The borrowing arrangement would be activated on a contingency basis and could be drawn upon by the Fund to finance country drawings in extraordinary circumstances.

The U.S. suggestion will be developed further and considered by IMF members in coming months. We will keep the Congress fully informed on this issue.

19. *Question.* Please list all the steps that the United States has taken in the past year and a half to pressure the Japanese to lower trade barriers.

Answer. This Administration has pressured the Japaneses continually to reduce barriers to U.S. exporters to Japan. Virtually every bilateral or multilateral meeting where U.S. officials encounter their Japanese counterparts includes discussion of the need to lower Japanese trade barriers. In addition, public statements by U.S. officials are often an effective means of pressuring the Japanese for trade liberalization. It is not practical to list every such occasion, but the following are some key events in the past year and a half:

June 1981, Meetings of the U.S.-Japan Lumber Trade Promotion Committee.

July 1981, USTR Brock presents trade policy focusing on reduction of foreign trade barriers to the Senate Subcommittee on International Trade.

July 1981, Ottawa Summit.

July 1981, Secretary Baldrige upgrades U.S.-Japan Trade Facilitation Committee.

September 1981, U.S.-Japan Subcabinet-level talks on trade.

September 1981, USTR Brock testimony to JEC calls for liberalization of Japanese agricultural imports.

October 1981, U.S.-Japan Agricultural products meeting in Tokyo.

October 1981, Secretary Baldrige visit to Tokyo.

November 1981, U.S. delivers a formal request for reduction of tariffs and non-tariff barriers.

December 1981, Subcabinet-level talks on lists presented in November.

March 1982, Subcabinet-level talks in Tokyo to follow up on first trade liberalization package.

July 1982, Follow-up meetings on second Japanese trade package.

August 1982, Follow-up group meets again in Tokyo.

August 1982, Japanese are informed about GATT cases.

September 1982, Further follow-up meetings, initial consultations under GATT.

Later this year we will be continuing our follow-up to the trade liberalization measures announced by the Japanese as well as seeking additional reductions of Japanese trade barriers.

20. *Question.* Since World War II, the United States has argued against preferential trading arrangements, pressing rather for an open trading system. Yet the Caribbean Basin Initiative includes a one-way free trade zone. Do you see this as marking a major departure from traditional U.S. policy? Are there situations where such departures from general policy may be justified?

Answer. The United States has in no way abandoned our overall opposition to non-discrimination. We recognize the inconsistency of the preferential trade aspects of the CBI with our well established position on non-discrimination, but believe that the serious economic deterioration in the Caribbean Basin justifies this temporary departure. With this temporary assistance, we expect the Basin to be able to develop to the point where preferences will no longer be necessary. We plan to present the CBI to the appropriate GATT review, and have no plans to extend preferential arrangements to other areas of the world.

21. *Question.* Trade disputes seem increasingly to be handled on a bilateral basis rather than through the GATT; developing countries complain that the IMF is ill-equipped to deal with the problems faced by developing countries; and this Administration has indicated that in the development assistance area it intends to place more attention on bilateral programs than on the multilateral development banks. If so, could we slip back into the kind of beggar-thy-neighbor nationalistic economic policies which helped lead to the Great Depression?

Answer. The United States continues strongly to support a multilateral approach to the resolution of international economic problems. We participated actively in several rounds of tariff negotiations under GATT auspices and hope that the upcoming GATT Ministerial will give new impetus to trade liberalization. The United States does not accept the hypothesis the IMF is ill-equipped to deal with the problems faced by the LDCs. Indeed, we look to a strengthened IMF to play a continued important role in promoting balance of payments adjustment and in cushioning shocks to the financial system. While this Administration has placed increased relative emphasis on bilateral assistance, our commitment to the multilateral development lending institutions remains firm.

22. *Question.* At both the Cancun and Versailles Summits, the President gave conditional agreement to Global Negotiations between North and South in the UN framework. Please describe the details of discussions on this issue. Do you expect anything to come of this process? Can the sterile debate on procedure be overcome, and are there areas which you believe substantive progress can be made on economic issues through such negotiations?

Answer. At Versailles the seven summit leaders agreed to move forward with Global Negotiations provided the independence of specialized agencies such as the GATT, IMF, and IBRD is protected. The Summit leaders proposed amendments to the G–77 draft UN resolution on GNs to assure a sound basis for proceedings. These amendments were presented to the G–77 in New York.

Although the majority of G–77 members were prepared to accept the Versailles amendments, several radical members led by Algeria, persuaded the G–77 to reject key portions of the amendments, and to propose substitute language. The substituted language is unacceptable to us because it does not protect the existing agencies. We and our Versailles summit partners continue to firmly support the Versailles amendments as the only basis for proceeding. Despite continuing discussions in New York, the G–77 has not accepted the Versailles language.

The issue is not merely one of procedures. The United States believes that existing multilateral institutions such as GATT, IMF, IBRD and the regional development banks have served the international economy well, and have evolved to meet the changing needs of both developing and developed nations. In contrast, some developing countries are pushing for widespread changes in the structure of the international economy which are not soundly based, and which would be harmful to existing institutions and to the economic interests of all the noncommunist countries.

Despite these concerns, the United States is prepared to engage in Global Negotiations on the basis set forth at the Versailles Summit. If GNs do occur on this basis, the United States would seek realistic and practical discussions on development issues in the 1980s.

In particular, we would plan to discuss the mutual interests of developed and developing countries regarding energy. There is no existing agency in which both developed and developing countries meet to discuss energy issues and Global Negotiations would provide a forum for exchanging views in order to improve mutual understanding of the oil and energy situation. This could contribute to greater stability in the world energy situation.

23. *Question.* Now that the United States has given its tentative approval to global negotiations, what are the prospects for structural changes in the international financial institutions, long a goal of the Group of 77?

Answer. When the U.S. Government agreed to consider global negotiations at Cancun, we made it clear that we would not consider any fundamental changes in the structure of the international financial institutions. We have maintained this position in all subsequent discussions of the issue. We see no reason to alter radically institutions which are serving well the purposes for which they were developed.

24. *Question.* If confirmed, what role do you expect to play in reviewing and in determining levels of bilateral aid in our foreign assistance program?

Answer. Under the President's directive, this administration has carefully scrutinized and fully integrated all foreign assistance resources to ensure that they are directed to the most vital goals of American foreign policy, an essential criterion in this period of tight fiscal constraints. I will ensure that we continue to work closely with all bureaus and agencies involved in development of the foreign assistance budget so that a country's economic situation is fully taken into account when the type and level of aid is under consideration. I believe, as does this administration, that foreign assistance in all its forms, while of great significance to development, can never substitute for a country's own efforts. I will endeavor to see that the

formulation of bilateral aid programs reflects that view. At the same time we will ensure that there is a cogent rationale for the overall assistance package and for individual priorities.

25. *Question.* In your article, "The Twilight War," published in "Army" magazine in January, 1979, you wrote: "About 1970, however, guilt and fatigue over the American effort in Vietnam, fueled by an unparalleled Soviet propaganda effort, soured many Americans on the role of world policeman." What are your personal views on U.S. fulfilling this role of world policeman?

Answer. My views on this subject are spelled out in detail in the article, "The Twilight War", which has been supplied to the Committee. Basically, it proposed recognizing that the Soviet Union and her allies were providing guns, training, and financial support to a variety of Marxist guerrilla aid terrorist groups preying upon small Third World countries. The article advocated providing some American assistance, where appropriate and practical, to help counter these Soviet efforts.

26. *Question.* In that same article, you wrote: . . . "not since the end of World War II has the American State Department contained a greater number of senior individuals actively disposed toward seeking a permanent and friendly accommodation, not only with the Soviet Union, but also with Cuba, North Korea and Vietnam." What proof do you have for this statement? How has this disposition changed over the past 40 years?

Answer. This was a value judgement on my part based on the intensive efforts mounted by some of President Carter's appointees in the State Department during its first two years in office to reach accommodation with the Soviet Union on a broad range of issues, and to remove some of the perceived impediments to better relations with Cuba, Vietnam, North Korea, etc. The point in my article was that the Carter State Department went the extra mile to indicate non-hostile intentions towards the Soviet Union during those first years in office, and it was not clear to me that the Soviet Union was responding in the same spirit.

This article was a summary of memorandum which I wrote for private distribution to some of my friends then working in the State Department and NSC to call their attention to what I felt was their overly optimistic assessment of what could be expected of Soviet policy makers in the then current circumstances.

27. *Question.* You also wrote: "Many Westerners have never fully understood that true detente holds far more risks for the Soviet Union than it would be for us." Do you favor such "true detente"? What policies of the Reagan Administration seek to promote such "true detente"?

Answer. I certainly favor a complete relaxation of tensions between the United States and the Soviet Union, and I am hopeful that the new generation of leadership within the Soviet Union will gradually adopt policies more in keeping with this spirit. On the other hand, we would be unwise to ignore some of the developments that have caused successive American administrations to lower exaggerated expectations, and take a clearer eyed view of the Soviet arms buildup and activities in the Third World since the policy of detente was initiated by President Nixon.

The challenge facing all of us is to keep up our defenses, military and otherwise, while hoping for some change of heart by Soviet leaders. We need some kind of code of conduct for detente, without which Soviet leaders are potentially in a position to reap the benefits of detente, while continuing activity that is profounding destabilizing to many parts of the third world, and to East-West arms balances.

As a general rule, I would say that we must move on a parallel track: maintaining our strength, while at the same time indicating our readiness to talk with the Soviet Union on matters where we can, hopefully, get agreement, such as at the START talks now underway in Geneva.

28. *Question.* You write that "present tensions between East and West . . . are serving the Soviet Empire as a sort of psychological cement, holding its system together." What do you plan to do, and can you do in the position for which you have been nominated, to reduce those tensions and weaken that "cement"?

Answer. A major purpose of my article was to indicate that it appeared to me that the Soviet leadership saw important internal political advantages in maintaining a degree of tension between East and West.

We can only change this situation in limited ways, since the Soviet Union chooses to portray us to their own people as a menace to justify internal disciplines, austerity, and vast military expenditures.

The overall policies of this administration, of which I will play a strong deterrent on one hand, and offering an olive branch at the modest part, are geared to striking a balance between maintaining a START talks on the other. Quiet American strength is the appropriate stance.

29. *Question.* In the "Army" article, you wrote: "The crucial role played by multinational corporations in the interlocking economy of the West has made them a particular target for Soviet propagandists and agitators." Where has the USSR been most successful in this regard? What do you believe should be done to blunt that success?

Answer. Soviet propaganda and local marxist agitation against multinational corporations has been most visible in the third world, where kidnapping of the children of local company officials, disruption of harvests, etc., have been a frequent pattern. There is no single solution to this problem, as I outlined in the article which you quote. The solution requires a combination of enlightened management and fair treatment of workers, on one hand, combined with prudent security measures on the other.

30. *Question.* In that same article, you wrote: "The credibility of our principal alliance structure, NATO, would in all likelihood not survive intact should communists enter the governments of our allies." Would you, with hindsight, alter that opinion on the basis of the recent experience in France?

Answer. President Mitterand has made significant efforts to isolate communists from participation in the activities most vital to the NATO effort. To the extent these efforts are successful, it will reduce the concerns which President Ford, Henry Kissinger, and others expressed concerning the security problem which communist participation in the government of a NATO ally would cause.

31. *Question.* In order "to unlock private capital on a worldwide basis" you urge "helping to provide greater physical security for societies now being preyed upon by the Soviet Union, territorists, guerrillas and Cubans." Which countries are most urgently in need of such enhanced security? Is such help an absolute prerequisite before private investment can be effective?

Answer. The recent hostage action in Honduras, where Marxist sympathizers held more than a hundred business and financial leaders, dramatizes the general security problem in various parts of Central America and elsewhere. Every week the New York Times carries articles of other terrorist actions. To the extent that local people feel threatened and insecure, they are reluctant to tie down their potentially liquid assets in long-term, job producing investments in unstable areas.

The greater the degree of physical and economic security, the greater the extent that individuals will invest locally.

32. *Question.* At one point in your biographical information form, you say that you worked for Senator Helms "1979–1981" and at another point you say "March 1979–present." What were your precise dates of employment in the U.S. Senate? What jobs and specific duties have you had since leaving the U.S. Senate?

Answer. I left the Senate staff in November of 1981, and have been a consultant on international economics at the State Department since that time, working closely with the former Assistant Secretary of Economics and Business, Robert Hormats, on a wide variety of international economic negotiations and issues. For example, I was part of the delegation which negotiated the new airline agreement with Japan. I attended the African Development Bank and Fund meeting in Lusaka. Finally, I represented the State Department at a broad range of other meetings, here and abroad, on matters relating to international economic policy.

33. *Question.* The biographical information also says "Did small amount of outside consulting for Connally for President. June 1979-Dec. 1979." Were you compensated for such consulting? Did you comply with the applicable rules governing Senate employees with regard to outside employment and political activities?

Answer. I did receive a small amount of compensation from the Connally Committee. My employment arrangement with the Senate was to cover two-thirds of my time. I was free to use the additional one-third of my time for other consulting activities, consistent with the rules of the Senate. I made very sparing use of the one-third of my time that was potentially free for outside activities, devoting the vast bulk of it to the Senate's work without additional charge.

34. *Question.* What specific experience did you gain as a Senate employee which is directly relevant to the duties to the position for which you have been nominated?

Answer. The most important thing I gained as a member of the Senate staff as far as the performance of my present duties at the State Department is concerned was an understanding of the way the legislative process works, and gaining the trust and confidence of those Senators and Staff members with whom I dealt.

35. *Question.* What specific insights into the policymaking process and into legislative-executive relations on foreign policy matters did you derive from your work as a Senate employee?

Answer. I learned the vital importance of consulting with the Congress in advance to the maximum extent feasible before taking decisions or making recommendations.

36. *Question.* Among the duties of the position for which you are nominated are to negotiate certain agreements and to represent the United States with respect to international lending institutions. What personal experience have you had of negotiating agreements of making representations to foreign government or international organizations?

Answer. I was assistant to former Governor Scranton at the Intelsat negotiation in 1969, and was later involved in another stage of that negotiation at the Office of Telecommunications Policy. During the past year, I have represented the Department of State on a number of international economic conferences and negotiations, to the general satisfaction of the Department.

37. *Question.* In your personal judgment, are the duties of the Assistant Secretary for Economic and Business Affairs essentially nonpartisan? Or are there specific campaign themes or commitments by President Reagan which will guide your performance of your duties?

Answer. It is important in forming decisions regarding economic and business-related matters to consult in advance, to the maximum extent possible, with Members of Congress and involved interests on a non-partisan basis. This has been and will continue to be my overall mode of operation. I am also a member of President Reagan's Administration, a role not inconsistent with the principle of bipartisan consultation. President Reagan is hoping to revitalize the American economy, defeat inflation, and stimulate investment and trade. I am anxious to assist in the achievement of these objectives.

38. *Question.* In your January, 1979 article "Army" magazine, you are identified as "Most recently . . . in charge of Saudi Arabian policy and operations as Deputy to the Assistant Secretary of the Treasury." Please amplify on your duties in that position. What insights did you gain from that experience that are directly relevant to the duties of the post for which you have been nominated?

Answer. My job at the Treasury in 1974 was to help with the Joint U.S.-Saudi Arabian Economic Commission. This involved arranging plans for some fully reimbursible technical assistance projects. At that time, we had just gone through an oil embargo, and we were most anxious to keep the communications channels between the U.S. Government and the Government of Saudi Arabia very open to avoid a renewed oil embargo. The Commission was a modest part of the process. I participated in a number of discussions with Saudi Arabian officials, as part of delegations, during that period.

In the course of this job, I inevitably learned something about energy policy and economic development which are relevant to my current responsibilities.

SENATOR PERCY'S QUESTIONS

1. *Question.* More and more Illinois companies are telling me how they are being affected by competitive pressures from Japanese exporters. One aspect of this concern . . . and one which I've been hearing on an increasing basis relates to the relative value of the

Japanese Yen in comparison to the dollar. These Illinois companies . . . both domestically-oriented as well as exporters . . . point to the Yen as a major contributor to the deterioration of markets for U.S. products. I am told there is growing awareness that the currently undervalued nature of the Yen may be a direct result of manipulation by the Japanese government.

My question to you is—do you view the relative strength of the Yen as an artificially induced condition? And is this situation . . . whether it's real or perceived . . . of sufficient importance to warrant your attention as Assistant Secretary of State?

Answer. It seems likely that the value of the Japanese Yen relative to the dollar is lower than consistent with medium-term payments equilibrium, although the exact extent of the undervaluation is very difficult to measure. There are clearly many factors which have currently made the dollar very strong relative to foreign currencies, including interest rate differentials (which are being reduced as U.S. rates fall), confidence in President Reagan's economic policies, our success at reducing inflation, and political and economic uncertainties abroad.

In any case, such a condition clearly adversely affects the competitive position of U.S. companies relative to Japanese industry, and tends to aggravate trade tension between our countries. I believe the exchange-rate question is therefore a very important one.

2. *Question.* Your predecessor, Bob Hormats, was one of the strongest proponents of value-added exports—particularly agricultural products with a high value-added component. He worked very closely EPIC—the business/labor group formed to boost our value-added exports. Could you tell us your ideas about the importance of these exports to the U.S. economy and what course you might initiate to boost these exports?

Answer. I concur fully with Mr. Hormats' emphasis on increasing exports of value-added agricultural products. Such exports benefit our economy by stimulating economic activity, creating jobs, and earning foreign exchange. The United States has only about a 10 percent share of the market for high value agricultural products, and the unit value of our agricultural products has been declining in recent years. Increased sales of value-added products should be an important goal of our agricultural export promotion policies of the Eighties.

Export promotion programs which familiarize overseas buyers with the range and quality of available U.S. food products can make a significant contribution to value-added exports. An example is the National Food and Agriculture Exposition to be held in Atlanta next Spring for foreign buyers of food products. We are in the process of preparing a joint message from Secretaries Shultz and Block to chiefs of mission at our overseas posts asking for their cooperation in encouraging attendance at the show. I believe we need to involve our embassies as well as the Congress and Washington agencies in our efforts to increase value-added exports.

The private sector has a unique and major role to play in increasing our sales of value-added products. I look forward to working closely with the Export Processing Industry Coalition, the leading private sector advocate for value-added exports.

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